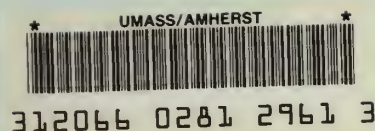


MASS. TC 60.4: 999



✓ THE MASSACHUSETTS TURNPIKE AUTHORITY
✓ 1999 AUDITED
FINANCIAL STATEMENTS

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORTS

FOR THE YEARS ENDING
DECEMBER 31, 1999 AND 1998

MASSACHUSETTS TURNPIKE AUTHORITY
AND
MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM



MASSACHUSETTS TURNPIKE AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Supplementary Schedules

December 31, 1999 and 1998

(With Independent Auditors' Reports Thereon)



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MASSACHUSETTS TURNPIKE AUTHORITY

December 31, 1999 and 1998

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Independent Auditors' Report

Members of the Board of Directors
Massachusetts Turnpike Authority:

We have audited the accompanying balance sheets of the Massachusetts Turnpike Authority, a component unit of the Commonwealth of Massachusetts (the "Authority"), as of December 31, 1999 and 1998, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in note 3, the Authority adopted the provisions of GASB Statement No. 31 in fiscal 1998.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2000 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations and contracts.

KPMG LLP

March 30, 2000



KPMG LLP KPMG LLP, a U.S. limited liability partnership, is
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MASSACHUSETTS TURNPIKE AUTHORITY

Balance Sheets

December 31, 1999 and 1998

Assets	1999	1998
Current assets:		
Cash and cash equivalents (note 3)	\$ 16,401,277	15,485,412
Restricted investments (note 3)	401,129,049	207,718,286
Receivables	18,025,961	9,065,357
Prepaid expenses and other assets	526,641	1,277,718
Total current assets	<u>436,082,928</u>	<u>233,546,773</u>
Restricted investments (note 3)	468,184,190	480,734,135
Property, plant and equipment, net (note 4)	2,035,168,305	1,474,752,665
Other assets	<u>5,789,422</u>	<u>5,381,088</u>
Total assets	<u>\$ 2,945,224,845</u>	<u>2,194,414,661</u>
Liabilities and Retained Earnings		
Current liabilities:		
Accounts payable	\$ 6,175,934	7,646,617
Accrued payroll	1,783,591	1,235,250
Compensated absences	7,842,849	7,100,067
Other accrued expenses, deferred credits and miscellaneous liabilities	42,204,629	27,379,444
Amounts payable from restricted investments:		
Current portion of bonds and notes payable	—	80,235,000
Accrued interest	—	42,165,458
Due to the Commonwealth of Massachusetts (note 6)	100,000,000	—
Total current liabilities	<u>158,007,003</u>	<u>165,761,836</u>
Accrued interest on capital appreciation bonds (note 5)	16,719,976	9,554,287
Bonds and notes payable, net (note 5)	<u>2,426,627,762</u>	<u>1,643,337,984</u>
Total liabilities	2,601,354,741	1,818,654,107
Retained earnings	<u>343,870,104</u>	<u>375,760,554</u>
Commitments and contingencies (notes 10, 11 and 12)		
Total liabilities and retained earnings	<u>\$ 2,945,224,845</u>	<u>2,194,414,661</u>

See accompanying notes to financial statements.

MASSACHUSETTS TURNPIKE AUTHORITY

Statements of Revenues, Expenses and Changes in Retained Earnings

Years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Operating revenues:		
Toll revenue, net	\$ 179,913,311	177,440,443
Restaurants, concessions and service stations	6,800,511	6,065,238
Rentals	9,917,790	6,584,571
Court fines	3,742,005	4,196,415
Other	3,881,734	2,872,233
	<u>204,255,351</u>	<u>197,158,900</u>
 Operating expenses:		
Operations and public protection	77,818,854	72,357,424
Repair and reconstruction	10,883,146	16,215,538
Administration	21,052,572	21,098,014
Retirement	1,103,176	2,583,296
Depreciation and amortization	46,805,065	44,423,739
	<u>157,662,813</u>	<u>156,678,011</u>
 Total operating expenses	<u>157,662,813</u>	<u>156,678,011</u>
 Operating income	<u>46,592,538</u>	<u>40,480,889</u>
 Nonoperating revenue and expense:		
Investment income	34,151,876	71,376,524
Interest expense	(112,634,864)	(103,713,245)
	<u>(78,482,988)</u>	<u>(32,336,721)</u>
 Total nonoperating expense	<u>(78,482,988)</u>	<u>(32,336,721)</u>
 Net (loss) income	(31,890,450)	8,144,168
 Retained earnings, beginning of year	<u>375,760,554</u>	<u>367,616,386</u>
 Retained earnings, end of year	<u>\$ 343,870,104</u>	<u>375,760,554</u>

See accompanying notes to financial statements.

MASSACHUSETTS TURNPIKE AUTHORITY

Statements of Cash Flows

Years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Operating income	\$ 46,592,538	40,480,889
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation and amortization	46,805,065	44,423,739
Changes in operating assets and liabilities:		
Receivables	(8,960,605)	(1,274,225)
Prepaid expenses	751,077	705,872
Other assets	(408,334)	108,486
Accounts payable	(1,470,683)	(1,748,448)
Accrued payroll	548,341	175,262
Compensated absences	742,782	322,824
Other accrued expenses, deferred credits and miscellaneous liabilities	14,825,185	(2,707,380)
Net cash provided by (used for) operating activities	<u>99,425,366</u>	<u>80,487,019</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(607,112,753)	(36,245,761)
Interest on bonds and notes	(158,331,126)	(72,682,774)
Proceeds from debt issuance, net of discounts and issuance costs	783,190,796	—
Principal payments on long-term debt	(80,235,000)	—
Due to the Commonwealth of Massachusetts	100,000,000	(700,000,000)
Net cash provided by (used for) capital and related financing activities	<u>37,511,917</u>	<u>(808,928,535)</u>
Cash flows from investing activities:		
Purchases of investments	(3,255,501,631)	(2,889,771,152)
Sales and maturities of investments	3,070,137,123	3,533,672,084
Investment income	49,343,090	69,821,501
Net cash (used for) provided by investing activities	<u>(136,021,418)</u>	<u>713,722,433</u>
Net increase (decrease) in cash	915,865	(14,719,083)
Cash and cash equivalents at beginning of year	<u>15,485,412</u>	<u>30,204,495</u>
Cash and cash equivalents at end of year	<u>\$ 16,401,277</u>	<u>15,485,412</u>

See accompanying notes to financial statements.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

(1) Organization

The Massachusetts Turnpike Authority (the "Authority") was established by Chapter 354 of the Acts of 1952 of the Commonwealth of Massachusetts (the "Commonwealth"). It is a public instrumentality that was authorized and empowered to construct, maintain, repair and operate a toll express highway, known as the Massachusetts Turnpike (the "Turnpike"). Chapter 598 of the Acts of 1958 authorized and empowered the Authority to acquire from the City of Boston, the Sumner Tunnel and to construct an additional vehicular tunnel between Boston proper and East Boston, the Callahan Tunnel, and to operate and maintain both facilities. Chapter 102, as amended by Chapter 273 of the Acts of 1995, authorized the transfer of ownership of the Ted Williams Tunnel from the Commonwealth to the Authority. Since this date, its operations have been included in the accompanying financial statements.

In March 1997, the Commonwealth established pursuant to Chapter 3 of the Acts of 1997, a new enabling act, and repealed the two prior special acts noted above that previously had governed the Authority. The new enabling act establishes two separate systems to be owned and operated by the Authority, the Metropolitan Highway System and the Western Turnpike.

The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel ("CA/T Project"), the Central Artery North Area (CANA), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.

As of July 1, 1997, the Massachusetts Highway Department (MHD) and the Authority entered into the Project Management Agreement whereby the Authority assumed all responsibility for managing and overseeing the remaining construction and other activities related to the CA/T Project. The Authority entered into the Project Management Agreement in anticipation of its ultimate ownership and operation of the facilities currently under construction. The Project Management Agreement provides that the Authority is not liable for any CA/T Project costs other than with respect to any payment required under law or any other payment the Authority agreed to make (see note 11).

The Authority is a component unit of the Commonwealth because the Commonwealth appoints the Authority's Board of Directors and there is a potential for the Authority to provide specific financial benefits to or impose specific financial burdens on the Commonwealth. The Authority's financial statements are therefore incorporated into the financial statements of the Commonwealth.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to generally accepted accounting principles applicable to government enterprise funds. The following is a summary of the Authority's significant accounting policies:

(a) *Basis of Presentation*

The Authority's financial statements are reported on the accrual basis of accounting as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund. Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and*

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

Other Governmental Entities That Use Proprietary Fund Accounting, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

(b) *Cash and Cash Equivalents*

The Authority's policy is to treat unrestricted investments with a maturity date of three months or less when purchased as cash equivalents for purposes of the cash flow statements.

(c) *Investments*

Investments are stated at fair value, which is determined based on quoted market price. The cost of securities sold is based upon the specific identification method.

(d) *Property, Plant and Equipment*

Property, plant and equipment is recorded at cost. Infrastructure consists of the initial construction costs to build the highways, structures, pavement, shoulders, service areas and other similar costs. Improvements consist of reconditioning of the highway structure and improvements to protection devices, lighting systems, signage and other similar costs.

The costs of normal maintenance and repairs are not capitalized. The cost of certain equipment used in administration and maintenance such as police and other light vehicles and office equipment have not been capitalized because the cost of such items is not material.

(e) *Depreciation*

The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated average useful lives:

	<u>Years</u>
Infrastructure	50
Buildings	30
Improvement to roadways and tunnels	30
Equipment	5-12

(f) *Interest Costs on Construction*

Interest is capitalized on fixed assets constructed with borrowed money. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. In fiscal 1999, net interest cost capitalized amounted to \$11,886,887, which was comprised of interest expense of \$17,434,770, less interest income of \$5,547,883. In fiscal 1998, there was no net interest cost capitalized as the net amount was not material.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

(g) *Amortization*

Revenue bond discounts are deferred and amortized on a weighted-average basis over the term of the bonds. Unamortized amounts are presented as a reduction of the face amount of bonds payable.

Costs related to the issuance of bonds are amortized on a weighted-average basis over the life of the bonds. The weighted average amortization method approximates the effective interest method. Issuance costs are recorded as other assets.

The difference between the reacquisition price and net carrying amount of defeased bonds is deducted from, or added to the refunding debt liability and amortized on the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

(h) *Compensated Absences*

Certain employees of the Authority accumulate unused vacation and sick time (subject to certain limitations) to be used at a later date or paid in cash upon termination and/or retirement from the Authority. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date based on years of service (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

(i) *Reclassifications*

Certain reclassifications were made to fiscal year 1998 financial statements to conform to the fiscal year 1999 presentation.

(j) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) *Deposits and Investments*

The Authority is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bonds or notes of public agencies, states or municipalities, bank time deposits, guaranteed interest contracts, money market accounts, interest rate swap agreements, repurchase agreements or commercial paper, notes, bonds or other obligations of any corporation that has obtained specific ratings.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

(a) Deposits

A summary of the Authority's deposits that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name (Category 2), and those deposits that are not collateralized (Category 3). Managed investment pools are not categorized. Deposits as of December 31, 1999 and 1998 are as follows:

1999					
	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Cash and cash equivalents	\$ <u>393,817</u>	<u>—</u>	<u>15,661,286</u>	\$ <u>16,055,103</u>	<u>16,401,277</u>
1998					
	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Cash and cash equivalents	\$ <u>361,758</u>	<u>—</u>	<u>15,101,810</u>	\$ 15,463,568	15,216,896
Not categorized:					
Money market mutual funds				<u>268,516</u>	<u>268,516</u>
Total				\$ <u>15,732,084</u>	<u>15,485,412</u>

Deposits in transit and outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

(b) Investments

The Authority's investments are categorized according to the level of risk assumed by the Authority. Category 1 includes investments that are insured, registered or held by the Authority's trustee in the Authority's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered investments held by the counterparty, its trust department or agent but not in the Authority's name.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

1999				
	Category			Fair Value
	1	2	3	
U.S. Government obligations	\$ —	292,224,510	—	\$ 292,224,510
U.S. Government Agency obligations	—	295,898,930	—	295,898,930
	<u>\$ —</u>	<u>588,123,440</u>	<u>—</u>	<u>588,123,440</u>
Not categorized:				
Money market mutual funds				<u>281,189,799</u>
Total				<u>\$ 869,313,239</u>

1998				
	Category			Fair Value
	1	2	3	
U.S. Government obligations	\$ —	228,893,673	—	\$ 228,893,673
U.S. Government Agency obligations	—	166,101,115	—	166,101,115
Guaranteed interest contracts	—	161,332,897	—	161,332,897
	<u>\$ —</u>	<u>556,327,685</u>	<u>—</u>	<u>556,327,685</u>
Not categorized:				
Money market mutual funds				<u>132,124,736</u>
Total				<u>\$ 688,452,421</u>

In June 1999, the Authority entered into an interest rate swap option agreement (an "option"). The buyer of the agreement was Morgan Guaranty Trust Company of New York (the "Buyer"). The interest rate swap matures on July 1, 2029, for which the notional amount is \$100,000,000. The Authority received a premium on July 20, 1999 of \$5,350,000. This amount has been recorded as deferred revenue at December 31, 1999, and is being recognized as investment income over the 30-year life of the agreement. The Buyer has the right, but not the obligation, to exercise this option on any January 1, April 1, July 1 and October 1. The Authority will incur an obligation to pay the Buyer when the average TBMA Municipal Swap Index/LIBOR ratio exceeds 72% over 12 consecutive weeks. The Authority's payment obligation would be equal to the difference between the TBMA and 67% of LIBOR, multiplied by the \$100,000,000. The Authority was not required to make any payments on this interest rate swap during 1999.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

In fiscal year 1998, the Authority adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments are recorded at fair value beginning in fiscal year 1998. The difference between the amortized cost and fair value of investments at December 31, 1999 and 1998 was an unrealized loss of approximately \$4.5 million and an unrealized gain of approximately \$5.2 million, respectively. Such amounts are included in investment income.

The following summarizes cash and investments as of December 31 by the various funds and accounts established by the Authority for debt covenant requirements and other purposes.

	<u>1999</u>	<u>1998</u>
Revenue Fund	\$ 19,045,796	18,103,754
1996 BAN Fund	—	35,446,849
General Fund	99,072,187	135,971,328
Operating Fund	11,030,946	11,905,589
Senior Debt Service Fund	149,518,310	253,961,111
Senior Debt Service Reserve Fund	130,931,930	132,042,351
Subordinated Debt Service Fund	109,523,022	39,204,986
Subordinated Debt Service Reserve Fund	80,174,815	15,810,494
Capital Reinvestment Fund	26,578,917	10,328,910
Bond Proceeds Fund:		
Capital Account	56,467,877	51,103,607
Commonwealth Payment Account	97,325,243	58,854
MTA General Fund	<u>106,045,473</u>	<u>—</u>
Total	\$ <u>885,714,516</u>	<u>703,937,833</u>

(4) Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

	<u>1999</u>	<u>1998</u>
Land	\$ 83,681,112	82,459,605
Infrastructure	1,355,794,143	1,355,356,948
Improvements	439,105,536	438,351,085
Buildings	43,241,248	42,963,636
Equipment	56,014,497	31,833,465
Construction-in-progress	<u>580,240,954</u>	<u>—</u>
	2,558,077,490	1,950,964,739
Less accumulated depreciation	<u>(522,909,185)</u>	<u>(476,212,074)</u>
Net property, plant and equipment	\$ <u>2,035,168,305</u>	<u>1,474,752,665</u>

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

(5) Bonds and Notes Payable

Long-term debt at December 31, 1999 and 1998 consisted of the following:

	<u>1999</u>	<u>1998</u>
Revenue Bonds:		
Metropolitan Highway System:		
1997, Series A, 5.05% to 5.65%, issued September 24, 1997 due 2010 to 2037	\$ 1,183,046,617	1,183,046,617
1997, Series C, 5.40% to 5.55%, issued September 24, 1997 due 2016 to 2023	89,136,006	89,136,006
Western Turnpike:		
1997, Series A, 5.55%, issued September 24, 1997 due 2017 (mandatory sinking fund requirements from 1999 to 2017)	273,190,000	297,520,000
Subordinated debt:		
Metropolitan Highway System:		
1999, Series A, 3.90% to 5.26%, issued March 11, 1999 due 2004 to 2039	808,975,000	—
1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037	194,680,000	194,680,000
Guaranteed Bond Anticipation Notes:		
Metropolitan Highway System:		
1996 Series A, 5%, issued January 15, 1996 due 1999	—	55,905,000
Subtotal	<u>2,549,027,623</u>	<u>1,820,287,623</u>
Less:		
Current portion	—	(80,235,000)
Unamortized bond discounts, net	(126,429,485)	(98,273,784)
Unamortized difference between reacquisition price and net carrying amount of defeased bonds	<u>4,029,624</u>	<u>1,559,145</u>
Subtotal	<u>(122,399,861)</u>	<u>(176,949,639)</u>
Long-term portion of bonds and notes, net	\$ <u>2,426,627,762</u>	<u>1,643,337,984</u>

On March 11, 1999, the Authority issued \$808,975,000 of Metropolitan Highway System Revenue Bonds, 1999 Series A Subordinated. The bonds were issued to refund the 1996 Series A Guaranteed Bond Anticipation Notes and to provide the Commonwealth amounts to be used to pay certain costs relating to the CA/T Project.

Interest is payable semiannually on all debt, except on Series C Bonds and \$20,685,000 of 1997 Series A Bonds (capital appreciation bonds). Accrued interest on capital appreciation bonds is payable upon maturity of the related bonds.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

Revenue Bonds are collateralized by a lien and pledge on substantially all of the Authority's cash and revenues.

Debt service requirements on revenue bonds subsequent to December 31, 1999 are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ —	122,820,109	122,820,109
2001	7,945,000	122,379,162	130,324,162
2002	12,295,000	121,696,789	133,991,789
2003	13,050,000	120,972,514	134,022,514
2004	39,935,000	119,066,292	159,001,292
Thereafter	<u>2,475,802,623</u>	<u>2,988,607,713</u>	<u>5,464,410,336</u>
Total	\$ <u>2,549,027,623</u>	<u>3,595,542,579</u>	<u>6,144,570,202</u>

At December 31, 1999, the principal amounts outstanding on revenue bonds and notes outstanding that are considered defeased are as follows:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>	<u>Principal amount</u> <u>outstanding</u>
1990 Series A	2000 to 2020	100% to 102%	\$ 42,500,000
1993 Series A Serial	2000 to 2008	100% to 102%	87,105,000
1993 Series A Term	2013 to 2023	100%	263,355,000

Outstanding bonds that are redeemable before their scheduled due dates are as follows at December 31, 1999:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>	<u>Outstanding principal amount</u>
Metropolitan Highway System			
1999 Series A	2009 to 2039	100 to 101%	\$ 808,975,000
1997 Series A and B	2010 to 2037	100 to 102%	1,377,726,617
Western Turnpike			
1997 Series A	1999 to 2017	100%	273,190,000

(6) Due to the Commonwealth

In February 1999, the Authority entered into an agreement with the Commonwealth to provide additional payments to the Commonwealth with respect to the transfer of the CA/T Project. With respect to this agreement, the Authority is scheduled to pay to the Commonwealth \$100 million on or before June 30, 2000. This amount has been recorded as "Due to the Commonwealth" at December 31, 1999.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

(7) Employee Benefit Plans

Plan Description – Pension Plan

The Massachusetts Turnpike Authority Employees' Retirement Plan (the "Plan"), is a single employer contributory defined benefit pension plan administered by the Massachusetts Turnpike Authority Employees' Retirement System (the "System"). The Plan provides retirement, disability and death benefits to plan members and beneficiaries.

Massachusetts General Laws (MGL), principally Chapter 32, establish and amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Massachusetts Turnpike Employees' Retirement System at the State Transportation Building, 10 Park Plaza, Boston, MA, 02116.

Funding Policy

The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. Depending upon their employment date, active plan members are required to contribute 5% to 9% of their annual covered compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. The Authority is required to contribute amounts pursuant to MGL section 22(6A) of Chapter 32 which is the normal cost plus estimated expenses, less a 10-year level amortization of the January 1, 1998 surplus with interest to July 1999.

Annual Pension Cost

The annual required contribution for the current year was determined as part of the January 1, 1999, actuarial valuation using the individual entry age normal cost method. The actuarial assumptions included (a) 8.5% investment rate of return, and (b) projected salary increases of 5% per year. Both (a) and (b) include an inflation component of 3%. Liabilities for cost of living increases have been approximated, assuming an annual cost of 3% on the first \$12,000 annual pension. The annual pension cost and the employer contributions for the last three years are as follows:

Fiscal year ending <u>December</u>	Annual pension cost (APC) <u>cost (APC)</u>	Percentage of APC <u>contributed</u>
1999	\$ 1,005,364	100%
1998	2,577,577	100
1997	2,947,598	100

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

Schedule of Funding Progress

Actual funding progress of the Plan is as follows:

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial valuation date	Actuarial value of Plan assets*	Actuarial accrued liability (AAL)	Unfunded (overfunded) AAL (UALL) (2) - (3)	Actuarial value of assets as a percentage of AAL (funded ratio) (2)/(3)	Annual covered payroll	(UAAL) AAL as a percentage of covered payroll (4)/(6)
1/1/99	\$ 162,179,395	\$ 151,774,632	\$ (10,404,763)	106.9%	\$ 50,667,500	(20.5)%
1/1/98	149,546,125	143,697,064	(5,849,061)	104.1	48,254,760	(12.1)
1/1/97	128,744,051	132,298,183	3,554,132	97.3	48,878,082	7.3
1/1/96	114,569,547	117,383,869	2,814,322	97.6	54,849,372	5.1

*Five-year smoothed market value.

Healthcare Benefits Plan

In addition to the pension plan, the Authority has voluntarily established a separate plan to provide certain health care benefits to current employees. The fair value of the assets held in this plan was approximately \$3.2 million at December 31, 1999 and 1998. No employer contributions were made to the Plan in 1999 or 1998. Current payments for self-insured health benefits are recorded on a pay-as-you-go basis, and amounted to approximately \$467,000 and \$696,000 in fiscal year 1999 and 1998, respectively.

(8) Other Post-Employment Benefits

In addition to the pension and healthcare benefits described in note 7, the Authority voluntarily established the Retired Employees' Insurance Benefit Trust (REIBT), a plan to provide certain health care benefits to its retired employees. The Authority's contribution to the plan is funded on an actuarially determined basis using the individual entry age normal cost method. The significant actuarial assumptions, used for the January 1, 1998, the latest actuarial valuation, included (a) 8.5% investment rate of return, (b) projected salary increases of 5% per year, and (c) future increases in claim costs of 5% to 12%.

The number of plan participants is 1,905 of which 1,074 are active employees. There was no actuarially required contribution for 1999 and 1998 and, accordingly, no amounts were contributed for those years.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

The funded status of the plan at January 1, 1998 is as follows:

Actuarial accrued liability:	
Active employees	\$ 12,717,260
Inactive employees	<u>15,003,753</u>
	27,721,013
 Actuarial value of assets	 <u>33,815,332</u>
 Excess of assets over liabilities	 \$ <u>6,094,319</u>
 Funded ratio	 <u>122%</u>

Plan members contribute 10% to 20% of premiums depending on their union or nonunion status and the type of plan selected.

The Authority expensed, on a pay-as-you-go basis, approximately \$2,240,000 and \$1,920,000 in 1999 and 1998, respectively, for these post-employment healthcare benefits. In 1999, the Authority received a transfer from the REIBT of \$2,248,373 as a reimbursement of costs incurred for post-employment healthcare benefits. This reimbursement has been netted against administrative expenses. There was no similar reimbursement received in 1998.

(9) Leases

The Authority has commitments under operating leases for administrative office space and other facilities. These operating leases expire on various dates through June 2004 and are generally expected to be renewed or replaced by similar leases. Lease expense in 1999 and 1998 was \$935,996 and \$960,182, respectively, of which \$847,122 and \$797,819, respectively, was paid for the benefit of the Commonwealth for office space in a state-owned building. Future minimum lease payments under the above leases are as follows:

2000	\$ 925,200
2001	925,200
2002	925,200
2003	925,200
2004	<u>462,600</u>
 Total	 \$ <u>4,163,400</u>

The Authority leases property and air rights to others. During 1999 and 1998, the Authority earned \$9,917,790 and \$6,584,571 in rental income, respectively.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of December 31, 1999:

2000	\$ 8,476,228
2001	8,678,725
2002	8,406,382
2003	8,733,937
2004	<u>8,862,993</u>
Total	\$ <u>43,158,265</u>

(10) Risk Management

The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Routine litigation also includes disputes with contractors, subcontractors, and others arising from the construction or maintenance of the tunnels and turnpike. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. Certain risks are self-insured while others are covered by commercial insurance. The Authority has obtained health coverage for most active employees through various commercial health maintenance organizations. The health coverage for certain other active employees as well as coverage for job-related injuries to all employees is self-insured by the Authority, with the risks managed internally. The Authority purchases excess workers' compensation insurance in the commercial market for losses exceeding a retention amount of \$400,000. The Authority has obtained insurance coverage from various commercial insurers for all other risks of loss.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Insurance in 1999 has not changed significantly from the prior year.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported at year-end and are based on the historical cost of settling similar claims. The Authority records such liabilities as accrued expenses.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

Changes in the claims liability insurance reserves in fiscal 1999 and 1998 were as follows:

	<u>Health</u>	<u>Workers' compensation</u>
Liability balance, December 31, 1997	\$ 115,924	14,502,326
Provision to record estimated losses	2,003,822	2,712,898
Payments	(1,754,273)	(3,547,000)
Liability balance, December 31, 1998	<u>365,473</u>	<u>13,668,224</u>
Provision to record estimated losses	1,555,517	1,547,641
Payments	(1,589,785)	(2,567,956)
Liability balance, December 31, 1999	\$ <u>331,205</u>	<u>12,647,909</u>

(11) Commitments

The Authority enters into construction contracts for the Metropolitan Highway System and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 1999 approximated \$6.1 million. Projected construction costs and repair and reconstruction for 2000 are expected to not exceed \$56.0 million.

In addition, the Authority has committed to pay the Commonwealth \$100 million by June 30, 2000 related to the acquisition of the Central Artery. The Authority issued 1999 Series A bonds to fund this obligation (see note 5).

The Authority has also committed to pay the Commonwealth an amount not to exceed \$36 million for certain costs associated with the Central Artery construction. No funds were expended under this agreement during 1999.

On July 31, 1998, the Massachusetts legislature enacted Chapter 235 of the Acts of 1998 ("Chapter 235"), which, among other matters, authorized the Commonwealth, acting through the Secretary of Administration and Finance, to enter into a contract with the Authority providing for payments, by the Commonwealth to the Authority related to the cost of the operation and maintenance of the CA/T Project and CANA, as certified annually by the Authority. Chapter 235 establishes the following payment schedule:

- Not less than \$2 million for the State fiscal year July 1, 1999 – June 30, 2000
- Not less than \$5 million for each fiscal year thereafter prior to the transfer of the final segments of the CA/T Project and CANA to the Authority
- Not more than \$25 million for each fiscal year during and after such transfer.

MASSACHUSETTS TURNKPIKE AUTHORITY

Notes to Financial Statements

December 31, 1999 and 1998

Chapter 235 provides that the term of the contract shall extend until the end of the 40th fiscal year following the transfer.

(12) Subsequent Events

In March 2000, the Governor of the Commonwealth proposed legislation to address a projected increase in costs of \$1.4 billion for the CA/T Project. It is unknown how much, if any, of the estimated \$1.4 billion increase the Authority will be required to fund.



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Independent Auditors' Report on Supplementary Schedules

Members of the Board of Directors
Massachusetts Turnpike Authority:

We have audited and reported separately on the financial statements of the Massachusetts Turnpike Authority, a component unit of the Commonwealth of Massachusetts (the "Authority"), as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated March 30, 2000. Our report refers to the adoption of Governmental Accounting Standards Board Statement No. 31 (see page 1).

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The combining balance sheets as of December 31, 1999 and 1998 (Schedule 1) and the combining statements of revenues, expenses and changes in retained earnings for the years then ended (Schedule 2) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 30, 2000



Combining Balance Sheet

December 31, 1999

	Metropolitan Highway System	Western Turnpike	General Fund	Eliminations	Combined Totals
Assets					
Current assets:					
Cash and cash equivalents	\$ 6,841,483	9,515,801	43,993	—	16,401,277
Restricted investments	247,610,127	52,470,567	101,048,355	—	401,129,049
Receivables	12,187,107	4,575,939	1,262,915	—	18,025,961
Prepaid expenses and other assets	445,973	80,668	—	—	526,641
Due from other funds	10,948,355	7,964,954	—	(18,913,309)	—
Total current assets	278,033,045	74,607,929	102,355,263	(18,913,309)	436,082,928
Restricted investments	456,688,771	6,541,694	4,953,725	—	468,184,190
Property, plant and equipment	1,885,807,896	672,269,594	—	—	2,558,077,490
Less accumulated depreciation	(234,926,679)	(287,982,506)	—	—	(522,909,185)
Total property, plant and equipment, net	1,650,881,217	384,287,088	—	—	2,035,168,305
Other assets	3,198,701	2,590,721	—	—	5,789,422
Total assets	\$ 2,388,801,734	468,027,432	107,308,988	(18,913,309)	2,945,224,845
Liabilities and Retained Earnings					
Current liabilities:					
Accounts payable	\$ 2,546,599	3,629,335	—	—	6,175,934
Accrued payroll	574,077	1,209,514	—	—	1,783,591
Compensated absences	2,329,468	5,513,381	—	—	7,842,849
Other accrued expenses, deferred credits and miscellaneous liabilities	18,740,229	17,220,402	6,243,998	—	42,204,629
Due to other funds	8,773,634	10,139,675	—	(18,913,309)	—
Amounts payable from restricted investments:					
Current portion of bonds and notes payable	—	—	—	—	—
Accrued interest	—	—	—	—	—
Due to the Commonwealth of Massachusetts	100,000,000	—	—	—	100,000,000
Total current liabilities	132,964,007	37,712,307	6,243,998	(18,913,309)	158,007,003
Accrued interest on capital appreciation bonds	16,719,976	—	—	—	16,719,976
Bonds and notes payable, net	2,155,055,466	271,572,296	—	—	2,426,627,762
Total liabilities	2,304,739,449	309,284,603	6,243,998	(18,913,309)	2,601,354,741
Retained earnings	84,062,285	158,742,829	101,064,990	—	343,870,104
Total liabilities and retained earnings	\$ 2,388,801,734	468,027,432	107,308,988	(18,913,309)	2,945,224,845

Combining Balance Sheet

December 31, 1998

Assets	Metropolitan Highway System	Western Turnpike	General Fund	Eliminations	Combined Totals
Current assets:					
Cash and cash equivalents	\$ 8,880,684	6,604,718	10	—	15,485,412
Restricted investments	97,085,788	13,718,739	96,913,759	—	207,718,286
Receivables	3,842,857	5,093,281	129,219	—	9,065,357
Prepaid expenses and other assets	208,222	1,069,496	—	—	1,277,718
Due from other funds	2,889,003	6,602,483	1,877,766	(11,369,252)	—
Total current assets	112,906,554	33,088,717	98,920,754	(11,369,252)	233,546,773
Restricted investments	417,676,647	63,057,488	—	—	480,734,135
Property, plant and equipment	1,301,599,292	649,365,447	—	—	1,950,964,739
Less accumulated depreciation	(206,473,254)	(269,738,820)	—	—	(476,212,074)
Total property, plant and equipment, net	1,095,126,038	379,626,627	—	—	1,474,752,665
Other assets	2,974,683	2,406,405	—	—	5,381,088
Total assets	\$ 1,628,683,922	478,179,237	98,920,754	(11,369,252)	2,194,414,661
Liabilities and Retained Earnings					
Current liabilities:					
Accounts payable	\$ 2,121,813	5,524,804	—	—	7,646,617
Accrued payroll	320,572	914,678	—	—	1,235,250
Compensated absences	2,175,653	4,924,414	—	—	7,100,067
Other accrued expenses, deferred credits and miscellaneous liabilities	11,535,956	15,843,488	—	—	27,379,444
Due to other funds	5,777,424	5,591,828	—	(11,369,252)	—
Amounts payable from restricted investments:					
Current portion of bonds and notes payable	55,905,000	24,330,000	—	—	80,235,000
Accrued interest	33,909,278	8,256,180	—	—	42,165,458
Total current liabilities	111,745,696	65,385,392	—	(11,369,252)	165,761,836
Accrued interest on capital appreciation bonds	9,554,287	—	—	—	9,554,287
Bonds and notes payable, net	1,371,945,441	271,392,543	—	—	1,643,337,984
Total liabilities	1,493,245,424	336,777,935	—	(11,369,252)	1,818,654,107
Retained earnings	135,438,498	141,401,302	98,920,754	—	375,760,554
Total liabilities and retained earnings	\$ 1,628,683,922	478,179,237	98,920,754	(11,369,252)	2,194,414,661

MASSACHUSETTS TURNPIKE AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

Year ended December 31, 1999

	Metropolitan Highway System	Western Turnpike	General Fund	Eliminations	Combined Totals
Operating revenues:					
Toll revenue, net	\$ 82,185,878	97,727,433	—	—	179,913,311
Restaurants, concessions and service stations	7,227	6,793,284	—	—	6,800,511
Rentals	6,235,087	3,682,703	—	—	9,917,790
Court fines	1,114,817	2,627,188	—	—	3,742,005
Other	2,353,175	1,528,559	—	—	3,881,734
Total operating revenues	91,896,184	112,359,167	—	—	204,255,351
Operating expenses:					
Operations and public protection	29,113,920	48,704,934	—	—	77,818,854
Repair and reconstruction	3,377,505	7,505,641	—	—	10,883,146
Administration	4,555,970	15,573,340	923,262	—	21,052,572
Retirement	386,111	717,065	—	—	1,103,176
Depreciation and amortization	28,524,400	18,280,665	—	—	46,805,065
Total operating expenses	65,957,906	90,781,645	923,262	—	157,662,813
Operating income (loss)	25,938,278	21,577,522	(923,262)	—	46,592,538
Nonoperating revenue and expense:					
Investment income	26,266,477	2,940,135	4,945,264	—	34,151,876
Interest expense	(97,293,065)	(15,341,799)	—	—	(112,634,864)
Total nonoperating (expense) revenue, net	(71,026,588)	(12,401,664)	4,945,264	—	(78,482,988)
(Loss) income before interfund transfers	(45,088,310)	9,175,858	4,022,002	—	(31,890,450)
Interfund transfers	(6,287,903)	8,165,669	(1,877,766)	—	—
Net (loss) income	(51,376,213)	17,341,527	2,144,236	—	(31,890,450)
Retained earnings, beginning of year	135,438,498	141,401,302	98,920,754	—	375,760,554
Retained earnings, end of year	\$ 84,062,285	158,742,829	101,064,990	—	343,870,104

MASSACHUSETTS TURNPIKE AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

Year ended December 31, 1998

	Metropolitan Highway System	Western Turnpike	General Fund	Eliminations	Combined Totals
Operating revenues:					
Toll revenue, net	\$ 83,137,706	94,302,737	—	—	177,440,443
Restaurants, concessions and service stations	—	6,065,238	—	—	6,065,238
Rentals	4,030,523	2,554,048	—	—	6,584,571
Court fines	1,249,421	2,946,994	—	—	4,196,415
Other	1,995,395	876,838	—	—	2,872,233
Total operating revenues	90,413,045	106,745,855	—	—	197,158,900
Operating expenses:					
Operations and public protection	27,396,766	44,960,658	—	—	72,357,424
Repair and reconstruction	6,937,356	9,278,182	—	—	16,215,538
Administration	8,631,396	12,466,618	—	—	21,098,014
Retirement	904,153	1,679,143	—	—	2,583,296
Depreciation and amortization	27,503,555	16,920,184	—	—	44,423,739
Total operating expenses	71,373,226	85,304,785	—	—	156,678,011
Operating income	19,039,819	21,441,070	—	—	40,480,889
Nonoperating revenue and expense:					
Investment income	62,333,760	3,494,048	5,548,716	—	71,376,524
Interest expense	(87,101,031)	(16,612,214)	—	—	(103,713,245)
Total nonoperating (expense) revenue, net	(24,767,271)	(13,118,166)	5,548,716	—	(32,336,721)
Income before interfund transfers	(5,727,452)	8,322,904	5,548,716	—	8,144,168
Interfund transfers	420,815	7,534,102	(7,954,917)	—	—
Net (loss) income	(5,306,637)	15,857,006	(2,406,201)	—	8,144,168
Retained earnings, beginning of year	140,745,135	125,544,296	101,326,955	—	367,616,386
Retained earnings, end of year	\$ 135,438,498	141,401,302	98,920,754	—	375,760,554



**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Financial Statements

December 31, 1999 and 1998

(With Independent Auditors' Report Thereon)



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Independent Auditors' Report

The Retirement Board
Massachusetts Turnpike Authority
Employees' Retirement System:

We have audited the accompanying statement of plan net assets of the Massachusetts Turnpike Authority Employees' Retirement System ("System") as of December 31, 1999, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the System as of and for the year ended December 31, 1998, were audited by other auditors whose report thereon dated March 19, 1999, expressed an unqualified opinion.

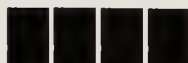
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Massachusetts Turnpike Authority Employees' Retirement System as of December 31, 1999, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

The historical pension information on Schedules I and II is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 24, 2000



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a member of KPMG International, a Swiss association.

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Statement of Plan Net Assets

December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Assets:		
Cash (note 4)	\$ 7,877,518	10,564,419
Investments, at fair value (note 4):		
U.S. Government securities	5,831,482	12,869,281
Securities - combined investment funds	69,754,346	63,451,501
Mortgage certificates	19,457,714	19,964,180
Asset backed securities	5,664,395	5,594,136
Pooled Domestic Balanced Fund	36,197,351	32,893,414
Pooled International Equity Fund	17,815,475	13,540,795
Miscellaneous notes and bonds	23,667,211	13,847,282
Massachusetts Municipal Depository Trust	146,600	—
Total investments	<u>178,534,574</u>	<u>162,160,589</u>
Accounts receivable:		
Contributions	659	123,535
Investment securities sold	109,010	207,716
Interest and dividends	770,710	598,886
Miscellaneous	4,136	15,164
Total accounts receivable	<u>884,515</u>	<u>945,301</u>
Total assets	<u>187,296,607</u>	<u>173,670,309</u>
Liabilities:		
Accrued management fees and other expenses	235,342	180,419
Investment securities purchased	184,970	916,512
Due to Massachusetts Turnpike Authority	465,831	473,845
Total liabilities	<u>886,143</u>	<u>1,570,776</u>
Net assets held in trust for pension benefits (see accompanying schedule of funding progress on page 9)	<u>\$ 186,410,464</u>	<u>172,099,533</u>

See accompanying notes to financial statements.

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Statement of Changes in Plan Net Assets

For the years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Additions:		
Contributions (note 3):		
Employer	\$ 1,005,364	2,577,577
Employee	4,696,313	4,234,326
Total contributions	<u>5,701,677</u>	<u>6,811,903</u>
Investment income:		
Net appreciation in fair value of investments	12,843,241	19,297,026
Interest and dividends	4,978,459	6,446,463
Total investment income	17,821,700	25,743,489
Less investment expenses	<u>922,645</u>	<u>764,291</u>
Net investment income	<u>16,899,055</u>	<u>24,979,198</u>
Net transfers and reimbursements received from other systems	<u>1,383,225</u>	<u>707,557</u>
Total additions	<u>23,983,957</u>	<u>32,498,658</u>
Deductions:		
Pension benefits paid	7,283,254	7,147,390
Annuity benefits paid	1,251,190	1,252,559
Member refunds	863,817	1,234,292
Administrative expenses	<u>274,765</u>	<u>311,009</u>
Total deductions	<u>9,673,026</u>	<u>9,945,250</u>
Net increase	14,310,931	22,553,408
Plan net assets:		
Beginning of year	<u>172,099,533</u>	<u>149,546,125</u>
End of year	\$ <u>186,410,464</u>	<u>172,099,533</u>

See accompanying notes to financial statements.

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Notes to Financial Statements

December 31, 1999 and 1998

(1) Description of Plan

(a) General

The Massachusetts Turnpike Authority Employees' Retirement System (the "System") is a single employer, contributory defined benefit pension plan which covers substantially all of the Massachusetts Turnpike Authority's employees. It is subject to the provisions of Chapter 32 of the Massachusetts General Laws. At January 1, 1999, System membership consisted of the following:

Active employees	1,293
Inactive employees with vested rights	71
Retirees, Beneficiaries, Disabled and Vested Terminated	<u>606</u>
Total Membership	<u>1,970</u>

The plan provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

A retirement allowance has two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement benefit and the annuity is the pension.

Participants become vested after 10 years of creditable service. A retirement allowance may be received upon reaching the age of 55 if the participant has recorded 10 or more years of creditable service. Participants who resign from employment and who are not eligible to receive a retirement allowance or who are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending on the number of years of creditable service, such participants are entitled to receive either 0%, 50% or 100% of the regular interest which has accrued on those deductions. The plan provides for early retirement upon completion of 20 years of service.

If a member in service dies, the surviving spouse and/or surviving dependent children may receive benefits, either in a lump sum or in the form of an annuity based on the length of service, contributions, age, and the cause of death. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump sum distribution. Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether or not the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran status, and group classification.

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Notes to Financial Statements

December 31, 1999 and 1998

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles.

(b) *Investments*

Investments in securities are reported at fair value. Fair values are based on quotations from national security exchanges.

Purchases and sales of investments are recorded on the trade date. Investment transactions remaining unsettled at year-end are recorded as payables for securities purchased and as receivables for securities sold.

Massachusetts General Law (M.G.L. c.32, s.20.03(1)) restricts investments in international equities to 5% of the portfolio Market Value. In 1998, the System obtained an amendment to this regulation from the Commonwealth of Massachusetts Division of Public Employee Retirement Administration Commission. The amendment allows the System to maintain in its investment portfolio international fixed income investments not to exceed 10% of the System's portfolio at market value.

(c) *Reclassifications*

Certain 1998 amounts have been reclassified to conform with the 1999 presentation.

(d) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Notes to Financial Statements

December 31, 1999 and 1998

(3) Funding Policy

As a condition of participation, employees are required to contribute 5% of their salary if hired prior to January 1, 1975, 7% if hired after that date and before January 1, 1984, 8% if hired after that date and before July 1, 1996, and 9% if hired after July 1, 1996. Employees hired after January 1, 1979, contribute an additional 2% of earnings in excess of \$30,000 per year. Overtime and extra pay are not subject to these assessments. In accordance with the funding plan approved by the Commonwealth of Massachusetts Division of Public Employee Retirement Administration Commission the Massachusetts Turnpike Authority contributes the remaining actuarial determined cost.

(4) Deposits and Investments

(a) Deposits

The System categorizes deposits according to the level of risk assumed. Category 1 includes deposits which are fully insured or collateralized with securities held by the System or its agent in the System's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the System's name. Category 3 includes those deposits that are not collateralized. The System's deposits at December 31, 1999 and 1998 are as follows:

December 31, 1999	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Total cash deposits	\$ 7,929,856	—	—	7,929,856	7,877,518

December 31, 1998	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Total cash deposits	\$ 10,413,674	—	—	10,413,674	10,564,419

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Notes to Financial Statements

December 31, 1999 and 1998

(b) Investments

The System categorizes investments according to the level of risk assumed. Category 1 includes investments that are insured, registered or held by the System's agent in the System's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent of the System in the System's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or agent, but not in the System's name. Mutual funds are not categorized. The System's investments as of December 31, 1999 and 1998 are as follows:

December 31, 1999	Category 1	Not Categorized	Estimated Fair Value
U.S. Government securities	\$ 5,831,482	—	5,831,482
Securities Combined Investment Funds	69,754,346	—	69,754,346
Mortgage certificates	19,457,714	—	19,457,714
Asset backed securities	5,664,395	—	5,664,395
Miscellaneous notes and bonds	23,667,211	—	23,667,211
Pooled Domestic Balanced Fund	—	36,197,351	36,197,351
Pooled International Equity Fund	—	17,815,475	17,815,475
Massachusetts Municipal Depository Trust	—	146,600	146,600
Total investments	\$ 124,375,148	54,159,426	178,534,574
December 31, 1998	Category 1	Not Categorized	Estimated Fair Value
U.S. Government securities	\$ 12,869,281	—	12,869,281
Securities Combined Investment Funds	63,451,501	—	63,451,501
Mortgage certificates	19,964,180	—	19,964,180
Asset backed securities	5,594,136	—	5,594,136
Miscellaneous notes and bonds	13,847,282	—	13,847,282
Pooled Domestic Balanced Fund	—	32,893,414	32,893,414
Pooled International Equity Fund	—	13,540,795	13,540,795
Total investments	\$ 115,726,380	46,434,209	162,160,589

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Notes to Financial Statements

December 31, 1999 and 1998

(5) Legally Required Reserve Accounts

The balances in the System's legally required reserves at December 31 are as follows:

<u>Description</u>	<u>1999</u>	<u>1998</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 42,255,821	37,483,187	Active members' contribution balance
Annuity Reserve Fund	12,357,806	12,269,810	Retired members' contribution account
Military Service Credit	476	465	Members' contribution account while on military leave
Pension Reserve Fund	<u>131,796,361</u>	<u>122,346,071</u>	Amounts to fund future retirement benefits
Total	\$ <u>186,410,464</u>	<u>172,099,533</u>	

All reserve accounts are funded at levels required by state statute.

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Schedule I

Required Supplementary Information

Schedule of Funding Progress

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial valuation date	Actuarial value of Plan assets	Actuarial accrued liability (AAL)	Unfunded (overfunded) AAL (UALL) (2)-(3)	Actuarial value of assets as a percentage of AAL (funded ratio) (2)/(3)	Annual covered payroll	UAAL as a percentage of covered payroll (4)/(6)
1/1/94 \$	98,143,844	\$ 98,868,063	\$ 724,219	99.3%	\$ 46,432,773	1.6%
1/1/95	105,025,937	107,691,737	2,665,800	97.5%	49,311,019	5.4%
1/1/96	114,569,547	117,383,869	2,814,322	97.6%	54,849,372	5.1%
1/1/97	128,744,051	135,620,702	6,876,651	94.9%	48,878,082	14.1%
1/1/98	149,546,125	143,697,064	(5,849,061)	104.1%	48,254,760	(12.1)%
1/1/99	162,179,395	151,774,632	(10,404,763)	106.9%	50,667,500	(20.5)%

Additional information as of the latest valuation follows:

Valuation date	January 1, 1999
Actuarial Cost Method	Individual Entry Age Normal
Actuarial Asset Valuation Method	Five year smoothed market value
Amortization Method	Level dollars
Amortization Period	10 years
Actuarial assumptions:	
Investment Rate of Return	8.5%
Projected Salary Increases	5.0%
Inflation Rate	3.0%
Cost of Living Adjustment	3.0% on retirees annual benefits not in excess of \$12,000.

**MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM**

Required Supplementary Information

Schedule of Employer Contributions

Year Ended December 31		Annual Required Contributions	Percentage Contributed
1994	\$	1,969,643	100%
1995		1,943,774	100
1996		2,443,952	100
1997		2,947,598	100
1998		2,577,577	100
1999		1,005,364	100

